

# Angel One

## SEBI clamps down on frothy revenue pools

In its efforts to clamp down on the rising irrationality in option volumes (F&O), the SEBI has directed exchanges and market infrastructure institutions (MII) to discontinue the practice of charging turnover-linked slab-wise fee structures, and levy uniform transaction charges instead. While exchanges currently levy regressive slab-wise fees (higher the turnover, lower the fees), brokers usually charge their customers at the highest prescribed slab rate, resulting in excess profit residing with brokers, especially discount brokers, which is accounted as “ancillary transaction income”. Our analysis of ANGELONE’s disclosures suggests that this revenue stream contributes ~8% to revenues and a material 20% to pre-tax profits, which is likely to be vulnerable to the SEBI’s “True to Label” mandate that calls for a complete pass-through from customers to MIIs. We cut our PBT estimates by 11% and 23% for FY25E and FY26E to factor in the potential first-order impact; we also flag the potential second-order adverse impact on working capital and funding costs. We value Angel One at 20x Mar-26 AEPS for its potent acquisition funnel and its relatively secular business model. We maintain ADD with a TP of INR2,750 (earlier INR3,500).

- Material PBT impact:** A cursory look at Angel One’s disclosures suggests that the company has witnessed a consistent rise in share of ancillary transaction income in its net revenues. Given this does not have any associated costs, this revenue stream directly accrues to PBT. Our analysis suggests that this revenue stream contributes ~8% to gross revenues and 20% to ANGELONE’s pre-tax profits, which is likely to be vulnerable to the SEBI’s “True to label” mandate that calls for a complete pass-through from customers to MIIs.
- Changes to estimates:** Our earlier forecasts implied that ancillary transaction income would continue to contribute 8-9% of gross revenues. Given the likely impact of the SEBI’s directive, we cut our PBT estimates by 11%/23% on the earlier estimated PBT for FY25E/26E. Given the fact that these excess charges (free levy) were retained by ANGELONE, we also flag the potential adverse impact on the company’s working capital and cost of funds.
- More regulatory moves ahead:** Given the SEBI’s recent high-decibel narrative on curbing the irrational exuberance in option volumes (F&O), we expect sustained regulatory scrutiny on other revenue line items and a systematic elimination of the froth building up in the Indian derivatives market. However, given the fact that this directive by itself is likely to reduce the cost burden on retail traders, it will be interesting to see its impact on F&O volumes..

### Exhibit 1: Ancillary Income

| INR in Mns                        | FY21  | FY22   | FY23   | FY24   | FY25E  | FY26E  |
|-----------------------------------|-------|--------|--------|--------|--------|--------|
| Net Revenue                       | 8,979 | 16,830 | 22,843 | 33,347 | 41,450 | 49,904 |
| Ancillary Income                  | 561   | 1,543  | 2,579  | 3,424  | 2,073* | 4,990* |
| PBT                               | 4,240 | 8,368  | 11,828 | 15,135 | 18,956 | 21,798 |
| Ancillary Income to PBT           | 13%   | 18%    | 22%    | 23%    | 11%    | 23%    |
| Ancillary Income % to Net Revenue | 6%    | 9%     | 11%    | 10%    | 5%     | 10%    |

Source: Company, HSIE Research

\*This income would not accrue now w.e.f. from 1<sup>st</sup> October 2024

## ADD

|                         |           |
|-------------------------|-----------|
| CMP (as on 1 July 2024) | INR 2,579 |
| Target Price            | INR 2,750 |
| NIFTY                   | 24,142    |

| KEY CHANGES  | OLD           | NEW           |
|--------------|---------------|---------------|
| Rating       | ADD           | ADD           |
| Price Target | INR 3,500     | INR 2,750     |
| EPS%         | FY25E<br>-11% | FY26E<br>-23% |

### KEY STOCK DATA

|                              |                 |
|------------------------------|-----------------|
| Bloomberg code               | ANGELONE IN     |
| No. of Shares (mn)           | 90              |
| MCap (INR bn) / (\$ mn)      | 232/2,783       |
| 6m avg traded value (INR mn) | 1,471           |
| 52 Week high / low           | INR 3,900/1,446 |

### STOCK PERFORMANCE (%)

|              | 3M   | 6M   | 12M   |
|--------------|------|------|-------|
| Absolute (%) | 26.1 | 45.3 | 461.0 |
| Relative (%) | 28.0 | 50.3 | 439.6 |

### SHAREHOLDING PATTERN (%)

|                 | Dec-23 | Mar-24 |
|-----------------|--------|--------|
| Promoters       | 38.2   | 38.2   |
| FIs & Local MFs | 9.3    | 9.5    |
| FPIs            | 19.1   | 17.3   |
| Public & Others | 33.8   | 35.03  |
| Pledged Shares  | Nil    | Nil    |

Source : BSE

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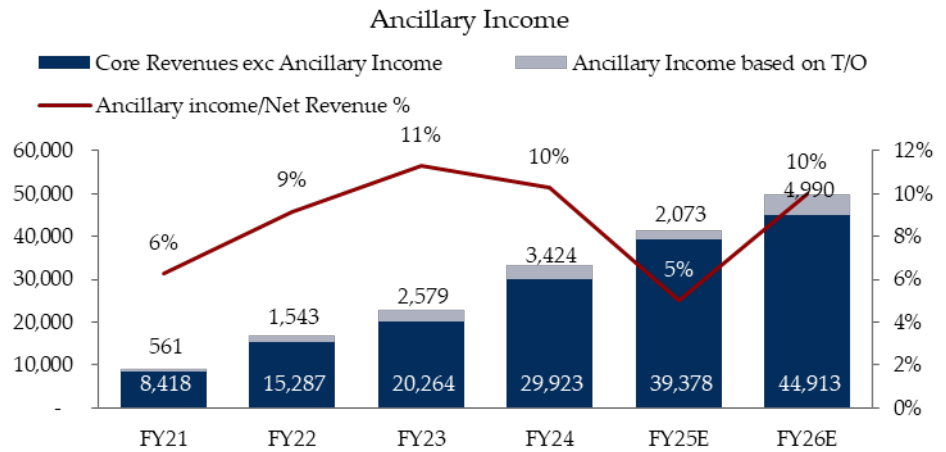
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**Change in estimates:**

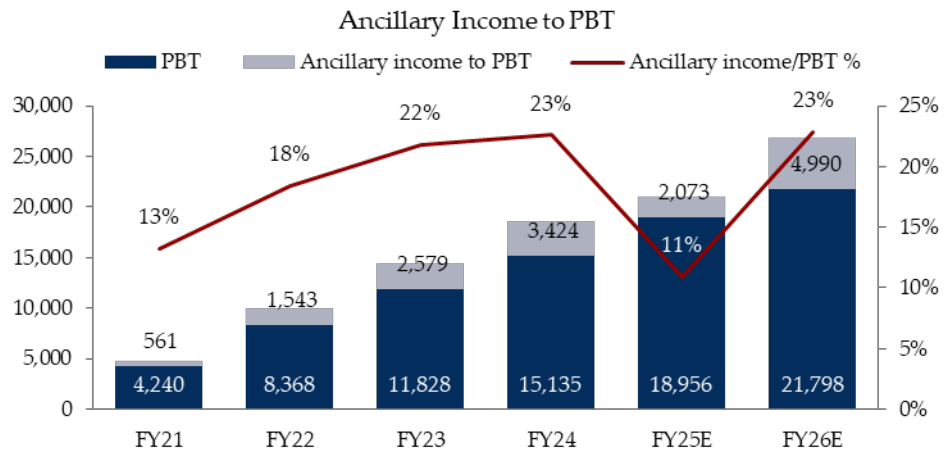
| INR in mns        | FY25    |        |         | FY26    |        |         |
|-------------------|---------|--------|---------|---------|--------|---------|
|                   | Revised | Old    | Change  | Revised | Old    | Change  |
| Net revs          | 39,378  | 41,450 | -5%     | 44,913  | 49,904 | -10%    |
| EBITDA            | 17,551  | 19,623 | -11%    | 17,594  | 22,585 | -22%    |
| EBITDA margin (%) | 45      | 47     | -277bps | 39      | 45     | -608bps |
| PAT               | 12625   | 14,179 | -11%    | 12344   | 16,087 | -23%    |
| ROE (%)           | 32      | 34     | -215bps | 27      | 32     | -475bps |

Source: Company, HSIE Research

**Dependency on Ancillary income in revenue to drop**



**Surplus profits to erode now**



Price history



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

**Disclosure:**

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